

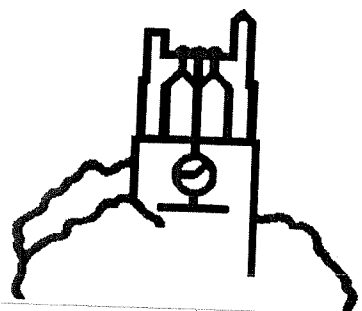
Staff Paper

**School District and Municipal Reorganization:
Research Findings & Policy Proposals**

**State and Local Government Program,
Michigan State University Extension and
Department of Agricultural Economics**

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**School District and Municipal Reorganization: Research Findings & Policy
Proposals**

Testimony before the:

**Michigan House of Representatives Intergovernmental, Urban and Regional Affairs
Committee**

February 21st, 2007

&

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INTRODUCTION

This report discusses the issues of municipal and school district reorganization. For over 100 years, since the so-called progressive era in American history, the issue of local government and school organization has been an important policy debate for policymakers. Over time, local governments and school districts have grown or shrunk in response to changes in society, demographics and economics. The general trend in the United States has been for growth in the number of special districts and a major decline in the number of school districts.

Currently, the United States has over 87,000 local governments. Within these numbers, there are 19,000 municipalities, 16,000 townships and 3,000 counties. These numbers also include 13,000 school districts and over 35,000 special districts. This number seems very large; it is actually down from over 116,000 local units of government in 1952.

The major area of reduction has come in the areas of school districts. The number of school districts has fallen from 67,000 in 1952 to just over 13,500 in 2002. Between 1952 and 1972, the number of school districts in the U.S. fell in half. This was partly the result of smaller, fragmented districts that did not cover the full K-12 range being consolidated into districts that did cover the full range of grades. These reductions mainly occurred in rural parts of the country. This reduction coincides with the major reduction of population in rural parts of the nation.

According to the Census Bureau, there are over 35,000 special districts in the United States. This number has doubled in the last twenty years. Many of these special districts are in natural resources (6,979) such as conservation districts and drainage districts. Another major area of special districts is fire protection (5,725). Fire districts are particularly prevalent in New York and Illinois. The third major area of special districts is housing and community development (3,399).

A debate continues in the 21st century in many states over whether government consolidation should occur. More recent thinking has stressed the positive benefits of intergovernmental agreements and cooperation. In these scenarios, governments continue to exist but specific services are provided via contractual arrangements for fire, water and sewer and other services.

In some cases, intergovernmental cooperation is simply a contractual arrangement. In other cases, local governments cooperate via the creation of special district or new authority government. Special districts are local governments who provide one specific type of service under generally restricted conditions of operation. Their ability to tax and incur debt, subject to different conditions across the states, has led to their popularity among local and state officials. They have been particularly widely used to provide infrastructure, airports, hospitals and other services. A counterargument is that cooperation is not enough and political consolidation must occur for true cost savings and service improvements to occur.

This report documents a broad literature review on the current state of thinking on municipal and school district reorganization. It examines literature from across the United States that has taken place over the last thirty years. There is also discussion on several current policy proposals in each arena.

The report is divided into several sections. Section one discusses intergovernmental cooperation and potential policies to spur further cooperation. Section two discusses municipal consolidation research and policy proposals. Section three discusses the literature regarding school consolidation and economies of scale. The appendix contains information on intergovernmental cooperation laws in Michigan, programs from other states regarding financial incentives to spur cooperation and a reference section.

SECTION 1: INTERGOVERNMENTAL COOPERATION

KEY FINDINGS: MUNICIPAL COOPERATION

Findings of fact and evidence indicate that cost savings from service cooperation exist in certain capital intensive services such as fire protection and property assessment, but are less likely to exist in labor intensive services such as police. State incentives may help propel further local cooperation. The benefits to the state would be improved local services and lower costs which could translate into maintaining reasonable local tax levels and enhanced economic competitiveness for Michigan.

Findings of Fact

There are three basic forms of intergovernmental cooperation and consolidation among local units. Geographic consolidation involves the process of land being transferred from one unit of government to another. This occurs via the process of annexation or in some cases the P.A. 425 land transfer Act process. Functional consolidation is the process of two or more local units of government working together to provide services such as fire protection, vehicle maintenance or property assessment. Finally, political consolidation is the merger of all functions and legislative bodies among two or more local units of government. The focus of this testimony is on functional and political consolidation.

Currently, Michigan local governments are engaged in cooperative service provision or functional consolidation based on a survey in 2005 from the MI Citizens Research Council (see <http://www.crcmich.org/PUBLICAT/2000s/2005/catalog.html>). These survey results cover part of the state; they do not cover all municipalities or all counties. Further, there is clearly room for more cooperation and perhaps consolidation among local units of government. For example, many municipalities work with counties to provide well and septic permitting. County governments provide nearly 2/3rd's of the state's 911 dispatch services for cities and townships. Fire fighting, fire training and HAZMAT response are currently done through joint service efforts by nearly a fifth of the local governments in Michigan. In other areas, such as tax collections, finances, elections, zoning administration, parks and playgrounds, these services are generally provided directly or in-house by the municipality. There are some service areas such as janitorial services and vehicle maintenance that are provided by the private sector. Some other basic findings include:

- Over 50 percent of training is provided in conjunction with another government or private entity
- Nearly 80 percent of record keeping is still provided in house by local governments
- Over half of property assessing is done privately or by another government entity; while treasury and accounting are still done primarily (over 80 percent) in house
- Nearly all fleet services are provided in house or not at all by local governments
- About a third of general police services are provided in house; many specific services are provided by county or state cooperation with other local units
- About half the responding local governments provide fire service in house; the rest is provided for by a mixture of contracting and special districts (Citizens Research Council of Michigan, 2005)

Functional consolidation occurs through several mechanisms in Michigan. The Michigan Constitution provides for intergovernmental cooperation through Article 3, Section 5 and Article 7, Section 28. These provisions have been enabled through the two primary intergovernmental cooperation laws, including the Urban Cooperation Act (P.A. 7 of 1967) and the Intergovernmental Transfer of Powers Act (P.A. 8 of 1967). These laws form the basic foundation for intergovernmental cooperation in Michigan. They respect several principles of municipal law including mutuality of benefit, mutuality of powers and the sovereign transfers' principle. Mutuality of benefit refers to the fact that both or all parties to the agreement must benefit from the contract. Mutuality of powers means that all parties to the agreements must have authority to provide that service. In other words, if a specific entity to a contract does not have the ability to provide the service, they cannot be authorized to do so via an intergovernmental agreement. Finally, intergovernmental agreements or contracts may not transfer sovereign powers, but only ministerial powers. For example, a government cannot transfer legislative decision making. Police hiring and enforcement of ordinances, on the other hand, are ministerial rather than sovereign powers. The biggest weaknesses of these general intergovernmental acts are that they do not provide any new local taxing authority to pay for services, they do not mandate a "hold harmless" provision for employees and they have only very limited bonding authority.

Many local government agreements follow specific statutes authorizing such joint service provision rather than the two general acts. This is because these specific statutes allow for enhanced authority in the very same areas that are limited in the general intergovernmental cooperation laws: 1) enhanced taxing authority 2) enhanced bonding authority and in some cases 3) flexibility to manage employee staffing of operations. One example of this type of law is the Municipal Emergency Services Authority Act (PA 57 of 1988). This act allows for bonding, taxing power (up to 20 mills for up to 20 years) and employee flexibility with some protections for staff. A new provision which has been debated in the legislature would provide the authorization for these authorities to pass ordinances (see MI Attorney General Opinion No. 7150). Other examples of these specific laws are the District Library Act, Charter Water Authority Act and Recreational Authority Act. Due to their enhanced flexibility, many communities are seeking to incorporate new ventures under these specific laws as opposed to using the general intergovernmental cooperation acts. However, these laws remain limited to a small number of service areas. One approach would be to expand these laws to include a wider range of services. In many cases, the Michigan Legislature has chosen to limit the millage capacity of these authorities based on the type of service. For example, Emergency Service authorities have a 20 mill capacity whereas recreational authorities only have 1 mill capacity. Another potential downside of this approach is that it will lead to more, not fewer, local governments in Michigan as special districts are created.

Research Summary on Economies of Scale in Local Government Services

POLICE SERVICES

- Diseconomies of scale, rather than efficiency, are found in larger aggregated police departments. Additionally, services are not necessarily better and there is no evidence of cost per unit savings.
- Smaller disaggregated police departments have better quality services. Surveys, interviews, and activity records support the finding that the sizes of police departments are negatively related to performance.
- Factors other than city size, such as the socioeconomic characteristics of the area, play an important role in the success of police department consolidation efforts. Thus, each situation should be looked at individually.

FIRE SERVICES

- General findings indicate that economies of scale and associated cost savings do exist in fire service protection due to the capital intensive nature of the service.

ROADS

- A survey of Midwest townships concluded that larger jurisdictions are more efficient at maintaining low-volume rural roads than smaller jurisdictions. This indicates the potential for cost savings from jurisdictional consolidation.
- Total costs of road production are estimated to be 40-50 percent higher than needed in many areas throughout the country due to small scale jurisdictions.

SOLID WASTE AND WATER

- A study of Massachusetts found that a five percent cost savings for the joint provision of disposal and recycling services was possible.
- No conclusive evidence exists for economies of scale in surface water production or the residential water supply industry. However, underground water production and non-residential water supply do exhibit cost savings.

PROPERTY TAX ASSESSMENTS

- Consolidation of small assessment offices has some cost savings, but no economies of scale exist beyond 100,000 parcels. This is based on a Georgia study.

Table 3 provides information on the number of local units of government in Michigan. In fact, Michigan ranks thirteenth among all states in terms of the number of local governments. The research literature provides very little guidance on the optimal number of local governments.

TABLE 3: Number of Local Government in Michigan by Type, 2002

	# of Units
	2002
Government	
City/Village	533
County	83
Township	1,242
Special Districts	366
Total	1,858

Source: U.S. Census Bureau, *2002 Census of Governments*

Table 4 provides information on municipal consolidations that have occurred in other countries across the world. In many countries, large numbers of local governments have been eliminated via parliamentary action. There is very little evidence as to whether significant amounts of resources have been saved or reduced in undertaking these activities. In some cases in fact, researchers have argued that cost savings did not appear and were in fact illusory (Slack, 2001).

TABLE 4: Experiences with Consolidation

Country/Region	Time Period	Original Municipalities	Final Municipalities	% Change
Australia	1910 - 2003	1067	603	-27.1
Japan	2000-2006	3203	1601	-50.0
New Zealand	1975 - 1995	249	74	-70.3
Ontario, Canada	1996 - 2002	825	447	-44.8
Sweden	1952-1974	2500	278	-89.1
Tasmania	1992 - 2000	40	29	-27.5

Source: Various journal articles cited in Bibliography

Municipal Reorganization Policy Proposals

Based on the research summary and current cooperation among local governments in Michigan, several areas of opportunity appear to exist. Cooperation on public safety and other service areas could be greatly enhanced particularly in dense urban centers such as Detroit, Grand Rapids and other cities. The barriers to such cooperation are not simply political. Financial and organizational barriers are often more important and include employees who are being deployed across several service areas. Some possible policies to encourage intergovernmental cooperation include:

- Adopting financial incentives to overcome the initial transaction costs of intergovernmental agreements
- Enacting changes to the Urban Cooperation Act to enhance new voter approved tax options similar to those under the Municipal Emergency Services Authority Act.
- Adopting provisions to allow greater labor staffing flexibility.

Financial incentives may be one tool for spurring intergovernmental cooperation in Michigan. A key question of any incentive program is whether it is subsidizing behavior or activity that would have occurred in the absence of the subsidy. In the case of cooperation, local governments are working together in specific service areas. As evidenced by the 2005 survey from the Citizens Research Council of Michigan, local governments are working with other local government partners, or even the private sector, to provide services to citizens and operate internal functions. The question is how much more of this activity can be generated through the use of financial incentives.

One proposal would be to enact an incentive program that "grandfathers in" existing cooperative arrangements. It is recommended that in future years, local government units would have to demonstrate new cooperative agreements rather than old agreements for revenue sharing bonus payments. It is recommended in concert with revenue sharing bonus payments that the state makes available a small pot of money for feasibility studies and technical assistance. These are often key aspects of intergovernmental agreements and could be awarded to local government consortiums through a competitive process. The typical feasibility study often costs around \$25 to \$50 thousand.

An important question of any incentive program is the specific criteria that the award will be based. In the appendix of this document are several programs from other states that have used incentive programs for intergovernmental cooperation. The existence of an intergovernmental agreement, and if appropriate articles of incorporation for the joint venture, may be one threshold to consider. At the same time, the state may wish to consider funneling support to specific intergovernmental service areas where substantial cost savings are believed to exist. For example, the Legislature could tie incentive funds to cooperation in specific high opportunity service areas. The downside of this approach is that a "mandated" approach reduced local creativity and flexibility in assessing the best use of resources. Research on economies of scale in any service area may or may not be applicable to any communities' specific situation.

A second area that the Michigan Legislature should review is regulatory relief for local governments. As it currently stands, the Urban Cooperation Act and the Intergovernmental Transfer of Powers Act tie the hands of local officials in creating new intergovernmental ventures. The provision that employees must be "held harmless" has derailed several intergovernmental efforts across the state. This type of provision often forces the cooperating governments to pay the highest wages and highest benefits of the cooperating partners. This similar problem has been cited in the case of the consolidation of the City of Toronto, Canada. Changes to the legal landscape guiding intergovernmental cooperation are another factor in spurring more of this activity (Slack, 2001).

SECTION 2: MUNICIPAL CONSOLIDATION

KEY FINDINGS: MUNICIPAL CONSOLIDATION

Cost savings are difficult to achieve through political consolidation of local government units, although other benefits such as enhanced economic development may exist

Political Consolidation

Political consolidation is a true merger of local units of government. The major objectives of such mergers are to reduce costs via economies of scale, improve overall service delivery, maintain or even reduce tax levels and enhance economic development promotion. Critics maintain that such mergers reduce government accountability and do not achieve cost savings, and in fact ultimately cost more.

There have been very few political consolidation attempts or mergers in the United States in the 20th and 21st century. For many states, city-city or city-township or other types of mergers have generally been absent since the 1950's and 1960's. In Michigan, the only city type consolidation in recent memory occurred in the Upper Peninsula in the late 1990's with the new city of Iron River. A preliminary evaluation indicates that Iron River was able to reduce the growth rate of expenditures since the consolidation (Martin and Scorsone, 2007).

Findings of Fact

- Generally, researchers have not found convincing evidence that political consolidation leads to lower costs for local government services.
- Some limited evidence exists for better coordination and delivery of municipal services, particular in the area of land use planning and economic development.
- Canada has undergone major local government political consolidation in the last decade. Toronto, which was consolidated in the late 1990's with its suburbs, provided an early estimate of its cost savings at \$136.5 million. However, evidence from other Canadian cities, including Ottawa and Montreal, are unclear as to the evidence of major cost savings.
- Evidence regarding municipal consolidations in Sweden and Norway between 1942 and 1987 indicate that not all forms of duplicative services were inefficient, and cost savings were largely illusory.
- Countries such as Canada and France have found that voluntary consolidation through fiscal incentives are much more favorable; mandatory or state directed consolidations are highly unfavorable and subject to greater opposition by constituents.
- The evidence based on MSU research, from the merger of Iron River, Stambaugh and Mineral Hills in the western Upper Peninsula in 2001 does reveal that in some specific cases, cost savings can be achieved through the merger of local units of government. However, we also caution that this experience does not necessarily generalize to the lower peninsula of Michigan and in particular the urban centers.

Other State Financial Incentive Programs for Cooperation

Other states around the country have attempted to use financial incentives to generate more intergovernmental cooperation activity. At this time, very few evaluations of these programs exist. For example, in 2001 Wisconsin responded to a state budget shortfall by passing a law that created a \$45 million fund to spur cooperation. However, no money was appropriated for the law and it never took effect. The following section describes programs in Maine, New Jersey and New York.

New Jersey Program

The State of New Jersey for the past six years has had a variety of programs designed to facilitate intergovernmental cooperation and consolidation. These programs were titled "Sharing Available Resources Efficiently" (SHARE) and "Regional Efficiency Development Initiative" (REDI). The SHARE program is designed to fund start-up costs and feasibility studies for communities attempting to assess inter-municipal cooperation. The SHARE program provides up to \$100,000 in funds annually for implementation of service agreements to community projects with a 25 percent match requirement. The SHARE program provides up to \$25,000 for feasibility study grants with a 50 percent local match required. The SHARE program has received approximately 60 applications over the last four years on an annual basis. Of these, approximately two-thirds were awarded incentives. In FY 2007, the SHARE program was funded at \$4.2 million.

The Regional Efficiency Aid Program (REAP) is a companion program to SHARE. REAP provides a tax credit to each individual parcel owner within cooperating districts and the revenue is repaid to local governments via state funds. This program ties property tax relief to the creation and implementation of cooperative service provision. In FY 2004, 2005 and 2006, 14 groups of communities received REAP tax credits. No funding was provided for the REAP program in FY 2007.

Maine Program

The State of Maine initiated an incentive based program for local governments and schools to spur further cooperation in 2003 (State of Maine, 2006) (<http://www.maine.gov/dafs/fund.htm>). The program is known as the "Fund for the Efficient Delivery of Local and Regional Services". It was established as part of the Maine School Finance Act in 2003 and was to include \$2 million in funding. To be eligible, one of the four following conditions must be in place, prior to receiving funding,

1. the execution of an inter-local agreement among the applicants that are party to the grant project
2. the execution of a memorandum of agreement among the applicants that are party to the grant project
3. the execution of a contract with one government entity as the service provider by other applicants that are party to the grant project
4. the submission of letters of endorsement or a documented agreement between participating entities

Municipalities, counties and regional governments may apply for the funds. In order to be eligible to participate, project applicants must demonstrate improved service delivery and cost savings. Money from the fund can be used for planning or feasibility studies as well as implementation of service delivery agreements. No local match is required, although it is considered as a factor in the awards process. In 2005 there were 26 projects which involved the participation of 151 governments and there were 14 additional projects in 2006. The following criteria were used to judge projects:

1. Extent and quality of cooperation among the participating applicants (20 points)
2. Estimated amount of property tax savings to the region over time (35 points)

3. Degree /likelihood of success in implementing and sustaining the intergovernmental arrangement (20 points)
4. Extent to which the project can be replicated by other regions in future cooperative endeavors (15 points)
5. Extent to which the project incorporates innovative and unique solutions or ideas (10 points)

In the FY 2008-2009 budget, the Governor of Maine has proposed increasing the allocation of money to the fund to \$2.6 million.

New York Program

The State of New York has the most highly developed and implemented municipal service sharing incentive program in the United States today. In the New York State FY 2005-2006 budget, a shared municipal services award program was established. In that fiscal year 244 applications were received for a total of over \$53.4 million in proposed funding. The budget only provided for \$2.45 million and 22 projects across the state received funding. This program was expended in FY 2006-2007 to include over \$25 million. Eligible entities are to include counties, cities, villages, townships, fire districts and school districts. The second year of the program broke the program into five subcategories:

- 1) shared municipal services
- 2) shared highway services
- 3) shared countywide services
- 4) local health insurance incentives
- 5) local consolidation incentives.

The New York program also includes a new partnership between the NY Department of State and Albany Law School's Government Law Center to provide technical assistance and training to these entities through the Shared Municipal Services Technical Assistance project <http://www.dos.state.ny.us/lgss/smsi/smsi-ta.html>.

SECTION 3: SCHOOL REORGANIZATION

KEY FINDINGS: SCHOOL REORGANIZATION

Cost savings ensuing from school district consolidation generally appears in moving from districts of less than 500 pupils, to enrollment levels between 2,000 and 4,000. However, student achievement weakens with elementary enrollment exceeding 300 to 500 pupils, for high schools this enrollment expands to 600 to 900 pupils. Studies on school consolidation fail to account for increased student transportation time. The long-term consequences of school district consolidation have yet to be analyzed.

School Reorganization Overview

As a matter of public policy, school district reorganization has been a focus in Michigan from the time public education was first offered.^a Two general themes have driven most proposals to reorganize Michigan schools, (1) improve student achievement, and (2) save on administrative and instructional costs. The push in Michigan has been generally to decrease the number of school districts, especially in rural areas. The combined number of school districts in Michigan peaked in the early 20th century at over 7,000, and has declined since then to stand around 750 at the turn of the 20th century (Table 1). However, the number of K-12 school districts has remained mostly constant throughout this period, only decreasing by roughly 20 since 1902. Thus, school reorganization has primarily arisen from the annexation of non-K-12 districts (K-4, K-6, K-12, etc) to K-12 districts.

TABLE 1: Number of Educational Units in Michigan, 1904, 1950, & 2002.

	Educational Units		Independent	Dependent ¹	Total
	1904	1950	2002	2002	2002
School Districts					
K-12	579	572	523	38	561
Non K-12	6,688	4,346	30	121	151
Community College Districts	2	2	27	0	27
Intermediate School Districts ²	83	83	57	0	57
Total	7,269	4,920	580	159	739

Source: U.S. Census Bureau, *2002 Census of Governments and Citizens Research Council (CRC), A Birds Eye View of Michigan Local Government at the End of the Twentieth Century*, Report Number 326 (August 1999).

¹ Dependent school districts include public school academies (charter schools) and Detroit's first class district.

² Census does not count Intermediate School districts as a school district government.

With increased demand for student performance by federal and state governments, as well as a larger share of financial responsibility moving away from local school districts, state boards of education and legislatures continue to take an increased interest in school reorganization. In Michigan, for example, the financing formula changed the state's share of education spending from roughly one-third to over eighty

^a For a comprehensive review documenting the evolution of current school district organization in Michigan, including the historical legislative treatment of school districts and state educational oversight, see Citizens Research Council, *School District Organization in Michigan*, Report No. 228, (November 1990).

percent following the school finance reform packages of 1994's Proposal A. (Michigan Senate Fiscal Agency 1995). The state's ability to reform schools was affirmed in the following appellate court decision:

School districts and other municipal corporations are creations of the state. Except as provided by the state, they have no existence, no functions, no rights and no powers. They are given no power, nor can any be implied, to defy their creator over the terms of their existence.

East Jackson School v. State of Michigan, 133 Mich App at 139 (1984).

Source: Citizens Research Council (1990)

School Economies of Scale Literature Review

Andrews, Duncombe, and Yinger (2002) provide a comprehensive analysis of the relationship between school size and instructional and administrative costs, as well as the affect on student achievement. Their study surveys and summarizes existing literature from journals of economics and education, plus governmental and educational associations since 1981. Below is a summary of their findings:

- Moving from very small school districts (less than 500 pupils) to enrollment levels between 2,000 and 4,000 suggest potential cost savings on instructional and administrative cost.
- Studies on cost savings do not factor additional travel time for pupils or parents in consolidating school districts.
- Linking student achievement with district size is generally less consistent. Most studies focus on individual school size. Large high schools, between 1,500-3,000 pupils, may be too large, especially with significant populations of disadvantaged students.
- For student achievement, moderate sized schools appear favorable--elementary enrollment between 300-500 pupils and high school enrollment between 600-900 pupils. Larger schools may trade off cost savings with student performance.
- Little supporting evidence exists, positively or negatively, on the long-term affects of school consolidation on student performance and cost savings.

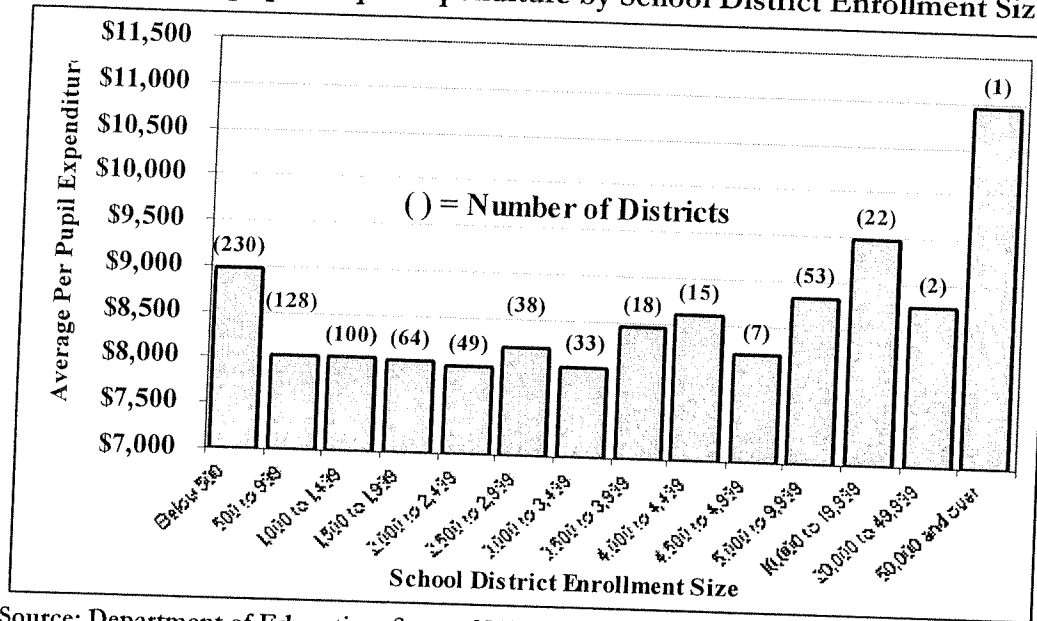
Source: Andrews, M., Duncombe, W., and Yinger, J. 2002. Revisiting Economies of Size in American Education: Are We Any Closer to a Consensus? *Economics of Education Review* 21: 245-262.

TABLE 2: Enrollment Size in Michigan Educational Units

		Enrollment Size											
		<500 (%)		500-2499 (%)		2,500-4,999 (%)		5,000-9,999, (%)		>9,999 (%)		Total (%)	
Independent	79	11%	300	41%	125	17%	50	7%	26	4%	580	78%	
Dependent	124	17%	33	4%	0	0%	1	0%	1	0%	159	22%	
Total	203	27%	333	45%	125	17%	51	7%	27	4%	739	100%	

Source: U.S. Census Bureau, *2002 Census of Governments*

Figure 1: Average per Pupil Expenditure by School District Enrollment Size



Source: Department of Education, State of Michigan, Bulletin 1011.

Duncombe and Yinger (2005) use New York State as a focal point for their consolidation study. New York provides school districts an additional 40 percent increase in their operating aid for the five years following consolidation. After the five years, aid is phased out over a nine-year period. In 1999 reorganization aid to New York school districts totaled nearly \$40 million.

Specifically, the authors view 12 pairs of consolidated *rural* school districts in New York between 1987 and 1995. The study examines total spending in the consolidated units, as well as subcategories of spending in administration, instruction, and transportation. The findings are presented below:

- Higher spending adjustments followed consolidation, but were small and quickly exhausted
- Total spending *decreased* almost 28 percent when consolidation occurred in districts with enrollments levels between 300 and 600 pupils. However, this decline dropped to 7 percent when consolidating districts had per pupil enrollment levels between 1,500 and 3,000.
- Similar expenditure reductions were found in instructional cost and teacher salaries. Again, the largest reductions occurred in the very smallest school districts.
- Central administration showed the largest expenditure reduction of all categories. Across all size ranges, doubling the size of the district resulted in a nearly 40 percent drop in administrative costs.
- Contradictory to expectations, transportation costs were smaller, not larger, following consolidation.

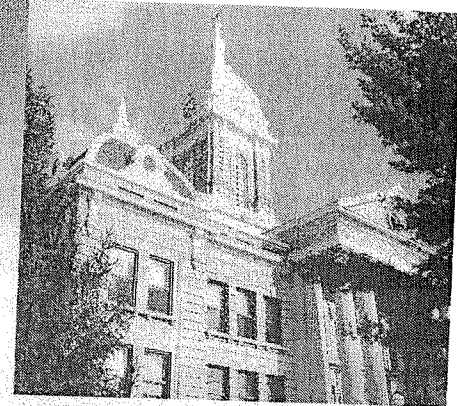
Comparing Benefits and Costs of School Consolidation

Potential Benefits (Economies of Size)

- Indivisibilities of services – For example, central administration of a district exists whether the district has 100 or 5,000 students.
- Increased dimension – Larger schools can utilize more efficient equipment (heating plant, communications system, science and computer labs) producing output at a lower average cost
- Specialization – Larger schools can employ specialized labor in math or science, etc.
- Price benefits of scale – Large districts can take advantage of scale by negotiating bulk purchases of supplies or equipment.

Contributing to Michigan's Success

in 2007



Intergovernmental Contracting and Collaboration

What's the Situation?

- As Michigan's economy continues to falter, state policymakers are exploring options for addressing the budget deficit. The efficiency and effectiveness of more than 1,800 local government units and 600 school districts has become an issue for discussion.
- Nearly 60 percent of the state budget goes to local units of government to provide programs and services. State policymakers are seeking innovative ways to contain costs while still maintaining critical public services.
- In her state of the state address, Gov. Granholm said, "It's simple--when they show us they're consolidating or sharing, we'll show them the money."
- It is commonly believed that too many local units lead to duplication of service and higher taxes.
- Research indicates that local government and school cooperation, and in some cases the consolidation of services, can lead to improved service delivery and foster better prospects for economic development.
- Since the 1970's local units of government have sought assistance from MSU Extension's state and local government program to help them deal with declining revenues and increasing service demands. MSUE has helped many of these local units of government explore options for service collaboration.
- Current and past research by MSUE specialists Lynn Harvey and Eric Scorsone have demonstrated that joint delivery and contracting for fire protection yielded lower fire service costs compared to self-delivery. MSUE assistance helps local units to use joint purchasing to increase savings for emergency services, water/sewer and recreation.
- MSUE has provided educational and technical assistance to more than 100 local units leading to the formation of 35 fire service authorities. These authorities provide expanded service capacity to residents at lower cost.
- In the last decade, MSUE specialists have assisted more than 300 units of government in Michigan in engaging in intergovernmental contracting in order to maintain selected community services.

Sampler of Success

Michigan State University Extension (MSUE) educators are present in every county of the state, working closely with local units of government and other community partners. They draw upon university based resources to address community issues.

MSUE Extension faculty members and Michigan Agricultural Experiment Station (MAES) researchers provide education and technical assistance for elected officials and decision makers to help them make wise choices about the use of resources.

MSUE works in partnership with local governmental organizations to provide educational opportunities for public officials on topics such as budgeting and finance, meeting management, intergovernmental cooperation, and performance based budgeting.

The MSUE state and local government program has a long history of working throughout the state on issues related to intergovernmental contracting, cooperation and consolidation.

- In the mid-1990s, state and local government specialists provided technical and educational assistance to three municipalities in Iron County, leading to the state's first city consolidation. The cities of Iron River and Stambaugh, along with the village of Mineral Hills, joined to form the new city of Iron River.
- A five-year economic analysis of the Iron River consolidation shows that there has been a 10 percent reduction in the total budget during the last five years, which is significant since most local government units' budgets increase over time.
- Residents in the consolidated communities clearly indicated improved quality of service. The community has had a significant increase in the ability to attract economic development. The expanded base of resources enabled Iron River to attract a technical assistance business center, a business that likely would not have settled in that area without the existence of those resources.

Contributing to Michigan's Success in 2007

- In 2005, MSUE state and local government specialist, Eric Scorsone provided leadership for the Governor's Task Force on Local Government Services and Fiscal Stability. The services of MSUE saved the state more than \$300,000 in consulting fees.

Current Intergovernmental Initiatives

- In 2005, MSUE's State and Local Government team began working with the MSU Land Policy Institute. The team received a \$200,000 grant from the Kellogg Foundation to investigate combining local government services in Michigan and to educate policy makers on which government services provide the greatest cost savings and community benefits.
- This applied research initiative supports an intensive field-based program of educational and technical assistance to local government officials interested in increased intergovernmental cooperation. MSUE provides assistance in the areas of legal barriers and structure, financing options and operational development
- Preliminary findings estimate that \$50 to \$70 million dollars could be saved over a five-to seven-year period through cooperative arrangements for fire, emergency management (EMS) and dispatch services.
- MSU Extension is preparing to assist communities in responding to the Governor's proposed \$27 million Local Government Collaborative Effort Fund or similar proposals from the Legislature.
- In the last 18 months, the MSUE State and Local Government Program has worked with more than a dozen local projects involving more than 45 local government units. These include efforts relate to fire and EMS cooperation in Wayne, Macomb and Oakland counties, and water and sewer cooperation in West Branch.
- The MSUE State and Local Government program recently began a project to help 12 communities in the greater Lansing region investigate fire/EMS cooperation and potential cost savings.

explore possible opportunities and barriers related to the public.

- Given the attention this issue is receiving from state policymakers, the MSUE State and Local Government team plans to expand technical assistance to communities across Michigan as they explore options for consolidation and cooperation.
- A key part of financial incentive programs in other states is the promotion of intergovernmental cooperation. New York State also provides technical assistance, including feasibility studies, contracting assistance and planning for such projects. The investment can lead to big payoffs as communities find opportunities to invest in collaborative projects.
- MSUE specialists plan to continue conducting applied research and educational programs on the consolidation of school services, determining cost savings and efficiencies.
- The MSUE State and Local Government team and the MSU Land Policy Institute will host a conference in spring 2007 to discuss and debate intergovernmental cooperation and policies related to consolidation and implementation.
- MSUE plans to provide educational programming on intergovernmental cooperation strategies for groups such as the Michigan Municipal League, the Michigan Association of Treasurers, the Association of Government Accountants and the Grand Valley Metropolitan Council.
- The MSUE State and Local Government team plans to host a series of town hall meetings providing objective information on the process and legal aspects of cooperation and consolidation for local governments and schools.
- MSUE specialists plan to develop a comprehensive database on fire/EMS special districts in Michigan. This will help communities learn from existing collaborations as they attempt to coordinate services with neighboring municipalities.
- The MSUE State and Local Government team offers an excellent conduit, one that can draw on partners in the private and public sectors, as well as other universities, to foster intergovernmental cooperation.

Goals for Building Michigan's Future

- MSUE plans to invest in research to determine citizen perceptions of intergovernmental cooperation and

For more information:

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**Michigan Senate
Local, Urban and State Affairs Committee
March 6, 2007**

Dr. Lynn R. Harvey
Professor and Associate Director
MSU Extension and Agricultural Economics

Organization and Finance Issues Facing Michigan Local Governments

General purpose and special purpose governments in Michigan are facing unique challenges. The emerging issues have resulted from a compounding effect of marginal and non-marginal changes to state law and tax policy while other issues have their roots in the volatile economy of the state. The interdependency between state and local government cannot be ignored. Changes in the state's fiscal condition directly impact the financial condition of local governments. The disparate growth in tax base of the state further widens the gap between the "haves" and "have nots" and between older central cities and growing suburban communities (wealth disparities). Local governments, for the most part, have extracted most of the economic efficiencies in their governmental operations. Reorganizing local production and delivery services through contracting, joint production arrangements and consolidation offer some potential for gaining additional efficiencies. Further reduction or changes in funding flows will result in difficult choices for local officials not unlike choices facing the legislature. Following are issues that the Intergovernmental, Urban and Regional Affairs Committee may wish to include on their agenda. Some issues have rather straightforward policy solutions while other represent long term challenges. Committee member no doubt have heard or will hear variations of the outlined themes from the county, municipal and township associations.

1. Structure and Organization of Michigan Local Governments

Public discussion over a number of years has highlighted what is perceived to be too many local governments in Michigan. The assumption is that larger units will yield lower costs and achieve greater efficiencies in service delivery. Lower costs can generally be achieved through consolidation with community services with high fixed costs (e.g. - sewer, water, fire protection) however; services that are personnel intensive may not achieve economies of scale through consolidation. To require a unit to provide a service to community residents does not mean that the unit has to produce the service, thus opening up other opportunities for organizing service production such as through contracting with either public or private sector.

General Purpose Governments

- ☐ Counties (83)
(One charter county Wayne)
- ☐ Townships (1,242)
Charter (132) General Law (1,110)
- ☐ Cities (274) (all home rule)
- ☐ Villages (259)
- ☐ Home Rule (48) General Law (211)

Special Purpose Governments

- ☐ K-12 School Districts (557)
- ☐ Intermediate School Districts (57)
- ☐ Community Colleges (29)
- ☐ Authorities (250+)

Townships were created in the Great Lake States as part of the Northwest Ordinance of 1785 and 1787 (congressional townships). Thus while state government provides the enabling powers, their derivation differs from other states with townships. State laws permits township consolidation, a local matter with approval of the county board of commissioners and township voters.

In Michigan, we have been about creating governments not consolidating. Only one city consolidation in state's history (cities of Iron River, Stambaugh and village of Mineral Hills consolidated in 2000 to form Iron River city). Battle Creek Township and city of Battle Creek merged through the city annexing the entire township. Thirty six percent of the cities in Michigan organized since World War II.

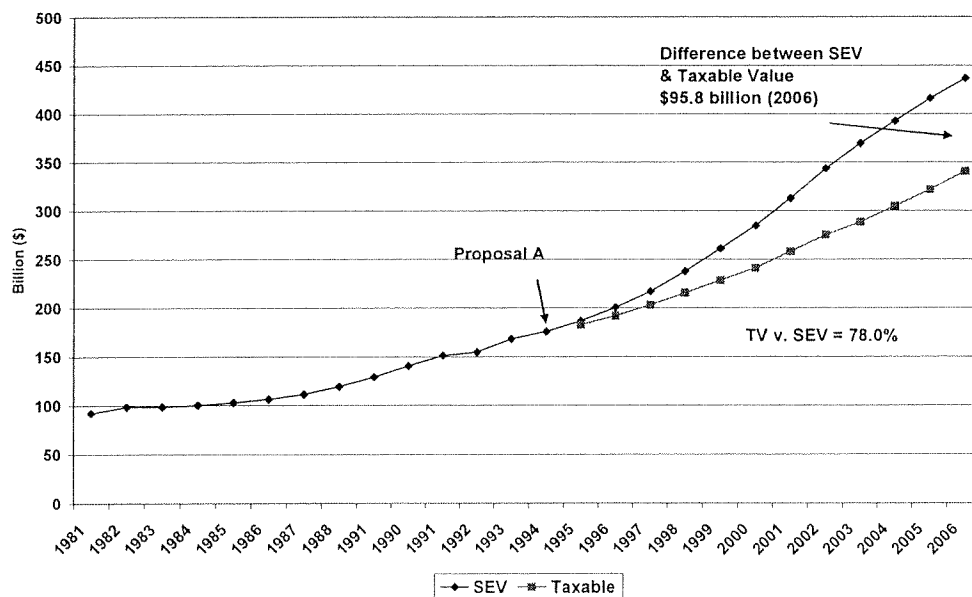
2. Headlee/Proposal A Interaction and Resulting Impacts¹

- Growing gap between Taxable Value and SEV (see Table 1 and Attachment A);
- Headlee Rollback and erosion of taxing capacity;
- Counting recaptured taxable value against Headlee rollback versus new value;
- Built-out communities, especially central cities, are destined to have restraints on revenue generating ability due to recapture provision.²
- New home buyers or individual changing housing bear a disproportionately higher tax price for services thus the property tax differential between new entrants to a neighborhood versus long term homeowners is growing. One could expect a political backlash once these differentials are transparent to homeowners. Equity in tax distribution is the central issue in the taxable value uncapping problem.

Proposed Action: Amend the General Property Tax Act to designate recaptured taxable value (uncapped value) to be treated as new development and exempt from Headlee Rollback

Table 1

SEV v. Taxable Value: 1981-2006



¹ For further discussion see "The Growing Difference between State Equalized Value and Taxable Value in Michigan" CRC Report No. 1058, March 2001. <http://www.crcmich.org/PUBLICAT/2000s/2001/memo1058.pdf>

² For more detailed analysis see "System Failure: Michigan's Broken Municipal Finance Model" Frank W. Audia and Denise A. Buckley, Plante & Moran, prepared for Michigan Municipal League, 2004.

3. **Enhanced revenue generating options for local units**
 - a. Local option sales tax
 - b. Countywide income tax (presently 22 cities have exercised city income tax option)
 - c. *The Task Force on Local Government Service and Fiscal Stability*, May 2006, provided a detailed summary of policy changes to assist local governments in addressing financial concerns. *Task Force* representatives will address this committee on February 21st.
4. **Tax Base Sharing for Local Governments**
 - a. Michigan's current policy of "winner take all" related to location of new private investments (housing, commercial and industrial development) contributes to stressed intergovernmental relationships, annexation fights and patterns of development location decisions that may not be in the collective interest of communities.
 - b. The "Conditional Land Transfer Program" (PA 425, 1984); involves a form of tax base sharing but in the long run because of legal interpretation will create jurisdictional boundary issues over the next three decades. Amendments to the law are needed to head off these impending issues (see item 5).

Proposed Action: Explore the potential for creating a win-win situation for intra-jurisdictional competition for economic development location such as the Minneapolis-St. Paul program of "industrial and commercial tax base sharing on a regional basis model."

5. **Conditional Land Transfer Program – PA 425³**
 - a. Often referred to as the "alternative to annexation" the Conditional Land Transfer Program has gained wide-popularity throughout the state and was viewed as a policy approach to create a win-win situation between cities and townships over land disputes over capturing the rents related to economic development. However, several issues have emerged that need to be resolved by the legislature.
 - i. Review Process – currently a city and township agree to the terms of a PA 425 agreement, once the agreement is adopted by the respective municipal bodies, the agreement is sent to the Secretary of State's Office of the Great Seal for recording. The agreements lack review by planning bodies or other oversight policymaking boards to insure consistency with planning goals and objectives for the local units involved.
 - ii. A Length of Agreement – the statute permits 425 agreements to extend to 50 years in length. Fifty years is an extremely long period of time for economic adjustment to occur. The agreements will transcend numerous terms of office of township board and city council members. A mandatory five year review would be useful in bringing sunshine on the agreement such that elected representatives are familiar with the agreements in place.
 - iii. Reversion conditions at end of the agreement – the statute permits the land included in the conditional transfer to become either permanently

³ For further discussion see "The Conditional Land Act: Research, Reflections and Recommendations" by Gary Taylor, Lynn Harvey and Will Shields, MSU Ag Economics, December 2003. Complete report can be found at <http://www.aec.msu.edu/agecon/government/index.htm>

attached to the city at the end of the agreement or transfer back to the unit of origin. The city of Three Rivers has 19 separate 425 agreements with two townships with differing terms and conditions such as revenue sharing terms and reversion conditions at the end of the agreements. Of the 268 425 agreements on file at Office of Great Seal, 32 percent state that the land in question reverts to the township at the end of the agreement. This has the potential to create significant policy issues over the ownership of infrastructure investments developed over the 50 years to support economic development. Nine of the agreements are silent as to how the land in question is disposed of at the termination of the agreement.

- iv. Contiguity of Land Conditionally Transferred – With annexation, land subject to annexation must be contiguous to the city proposing annexation. The PA 425 Program has no such requirement regarding the issue of contiguity which has lead to the emergence of 425 agreements involving a number of “islands” of land not contiguous to the city. A good example exists in Lansing with the City of Lansing and Alaiedon Township agreement where the economic development site is seven miles from Lansing, yet workers at the insurance company pay Lansing city income tax. If the dual purpose of the PA 425 statute is the promotion of economic development and a “win-win” approach to annexation, the current interpretation and use of the policy tool violates the spirit of the act.

Proposed Action: Amend the Conditional Land Transfer statute in the following manner:

- a. Require coordinated planning and review of proposed agreements
- b. Shorten the contract period to 10-15 years and require a mandatory review of the agreement every five years to maintain familiarity with the agreement. [Note research in the 1990s revealed that ten years after the first agreements were filed, 33 percent of the units involved expressed no knowledge of such agreements]
- c. Eliminate reversion option. Once land transferred and the transferring unit receives compensation over a number of years, at contract expiration, the land should remain with the city.
- d. Require contiguity.
- e. Require statistics be maintained to identify when agreements end.

6. **Revising the State Revenue Sharing Program**

Since the state revenue sharing program will sunset in FY 2007 for cities, villages and townships, the legislature will be required to revisit the distribution of the statutory portion of the SRS fund. The statutory formula based distribution is redistributive in design and from a policy perspective achieves the goal of recognizing fixed investments and associated costs incurred by older communities which are either built-out or losing population to suburban communities. The constitutional distribution of SRS on a per capita basis recognizes costs associated with population growth thus as communities experience population growth such as townships the current revenue sharing program accommodates the growth in the distribution of SRS funds. Additionally, the legislature will need to plan for the eventual eligibility of counties that will be eligible for state revenue sharing funds once the county SRS

fund expires. The first county eligible for SRS funds will occur in FY 2009 but counties will be spread out over a 20 year period in terms of re-entry to the SRS program.

The legislature has not only a constitutional and statutory obligation to engage in intergovernmental transfers with sub-state units of government but also has a long standing social contract with local units. Over the years, the legislature has usurped taxing powers from locals in exchange for a variety of revenues sharing strategies and commitments. Since the state has greater taxing flexibility compared to local units, it behooves the legislature to examine carefully the interdependent funding commitments with local governments.

The importance of state revenue sharing varies widely both by type of local government, size and tax base. If revenue sharing payments are converted to "millage equivalent", one can gain a perspective as to the importance of revenue sharing to local units.

7. **Governmental Organization**

The recent economic downturn with the resulting structural deficit for the state has placed additional financial strain on sub-state units of government. The growing financial gap between the "financially sound" and the "barely making it group" of local units is widening. It is predicted that there will be an increased interest in exploring alternative institutional arrangement for community service delivery. The alternatives arrangements will take many forms. Three types of consolidation offer potential: **functional** (service or activity level); **geographic** (school districts serve as an example) and **political** (two or more units combining into one, only one such consolidation in Michigan, Iron River). If the state is interested in promoting both efficiency and effectiveness in community service delivery, then a restructuring of state incentives will need to take place. Given a choice, local units would rather be self-producers and self-providers rather than collaborators in community service delivery. The state is in a position to offer incentives to promote governmental collaboration. These incentives could take the form of "transition payments" to units who merge services, form joint production arrangements or create authorities (special purpose governments). Additionally, units that consolidate services or politically consolidate could be eligible for premium revenue sharing payments for a 3-5 year period or other type payments to assist the units in their consolidation efforts. Or perhaps the state could create a special service or grant fund program that local units could tap as they move towards consolidation could access to assist with planning and implementation.

Proposed Action –

- a. Create a transition payment to local units who consolidate, establish authorities or form joint working arrangements for community service delivery.
- b. Provide bonus or premium revenue sharing payments to local governments who consolidate governments.
- c. Create a pool of funds which local units exploring consolidation or collaboration efforts can tap to assist with planning and implementation.

Testimony to MI Senate Local, Urban and State Affairs (March 6th, 2007)

Dr. Eric Scorsone
State and Local Government Program, MSU

Section I: Governor's Task Force on Local Government Services and Fiscal Stability

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Testimony

- Section I: Governors Task Force on Local Government Services and Fiscal Stability



- Section 2: Highlight further research findings on intergovernmental cooperation and municipal consolidation

Slide 2

Senate Testimony

Section 1: Governor's Task Force on Local Government Services and Fiscal Stability

Slide 3

Budgeting For Outcomes: The Importance of Local Government

Michigan's Goals (FY 2006 State Budget)

- ❖ Education
- ❖ The Economy
- ❖ Health and Human Services
- ❖ Hometown Security
- ❖ The Environment
- ❖ Better Government

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Senate Testimony

The Importance of Local Government

-The Economy-

- Local Government services are crucial part of economic growth
- Financial stress among local units may negate economic development efforts

-Health & Human Services-

- County Mental Health facilities

-Hometown Security-

- Police/Fire Service
- Courts/Jails

-Better Government-

- As the unit of government closest to citizens, local government can provide services effectively and efficiently

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Senate Testimony

Local Government Fiscal Stress

The Basic Problem:



Expenditures

- Health Care
- Pensions
- Homeland Security



Revenues

- Structural limitations in property tax collection
- Decreasing intergovernmental aid

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Senate Testimony

Local Government Fiscal Stress

• Fund balances are declining

Average fund balance as a % of general fund expenditures

	2003	2004	2005
City/Township	26%	22%	19%
County	12.5%	12%	11.5%

• One Measure of Financial distress increasing.

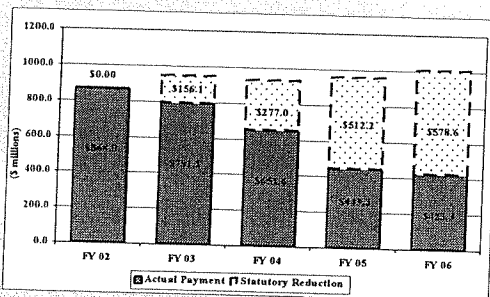
Units with less than 10% fund equity (fund balance/total expenditures)

	2003	2004	2005
City	27%	32%	35%
County	53%	60%	60%

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Senate Testimony

Fiscal Stress: Revenue Sharing



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Senate Testimony

Fiscal Stress: Examples

Local Unit	Expenditure Reduction	Population Served
Ann Arbor	Implemented a citywide hiring freeze since 2002.	114,024
Big Rapids	Put capital projects on hold in 2006.	10,849
Grand Rapids	Reduced 192 positions, or 11% of workforce between 2002 and 2006.	197,800
Lathrup Village	Unable to fill 3 police position in 2006, resulting in a 36% reduction in officers.	4,236
Saginaw	Did not fill 7 vacant police positions in 2005.	61,799

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Senate Testimony

Task Force On Local Government Services and Fiscal Stability

GOAL:

Make recommendations regarding State level policy that will help foster local government stability and efficient service provision

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Senate Testimony

Task Force: Objectives

- ❖ Examine existing sources of revenue for local government
- ❖ Review services provided by local governments including mandated and non-mandated services
- ❖ Identify state laws, policies and regulations and formulas that contribute to fiscal constraints on local governments
- ❖ Identify policies that reduce incentives for intergovernmental cooperation
- ❖ Discuss policy changes that would allow local governments to better provide services, spur economic development and develop better relations between state and local government

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Senate Testimony

Task Force: Organization

- Executive Order 2005-9
- 15 members representing cities, counties, and townships, and State Treasurer and State Budget Director
- Organized and directed by the Michigan Department of Treasury
- Staffed by Michigan State University Extension State and Local Government Program

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Senate Testimony

Task Force: Organization

MSU Staff

Eric Scorsone
Joe Martin
Lena Stevens
Melissa Gibson
Lynn Harvey
Leslie Bomer

Governors Task Force on Local Government Services and Fiscal Stability

Revenue and
Fiscal Constraint

Local Service
Delivery and
Expenditures

Intergovernmental
Cooperation

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Senate Testimony

Task Force: Members

Name	Unit Represented	Position
Karl S. Tomlin	City of Midland	City Manager
Rhianne R. Wilkins	City of Muskegon Heights	Mayor
Gerald W. Ambrose	Ingham County	County Controller
Patricia J. Pikka	Wakefield Township	Township Clerk
Larry T. Rutledge	LaSalle Township	Supervisor
Tom L. Hickner	Bay County	County Executive
Ruth Ann Jannick	Charter Township of Ypsilanti	Supervisor
David M. Diegal	Macomb County	Finance Director
Alex R. Allie	City of Huntington Woods	City Manager
Sean K. Werdlow	City of Detroit	Former Chief Financial Officer
Scott D. Buhner	City of Grand Rapids	Asst. City Manager for Fiscal Services
David M. Heber	Oakland County	Manager of Equalizations
Donald H. Gilmer	Kalamazoo County	County Administrator
Timothy J. Braun	Charter Township of Saginaw	Township Supervisor

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Senate Testimony

Recommendations

- The State must rebuild its commitment and partnership with local government by fully funding the Revenue Sharing Act
- The General Property Tax Act should be amended to exempt increases in Taxable Value from Headlee millage rollback requirements following the transfer of property
- Public Act 312 of 1969 must be reviewed to better define ability to pay and require specific, impartial actuarial cost information for pension modifications
- Consider policy mandates to assure local governments have a long term financial plan to adequately fund post retirement benefits.

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Senate Testimony

Recommendations (cont.)

- The State must recognize that local government needs adequate and flexible revenue options
- State Legislation must encourage with incentives regional cooperation and eliminate regulatory obstacles at the local and state level to consolidating services.
- A permanent State supported institution is necessary to address local government issues and encourage cooperation (Commission on Intergovernmental Relations)

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Senate Testimony

Section II: Intergovernmental Cooperation and Municipal Consolidation

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Numbers of of Local Government

SPECIAL PURPOSE	GENERAL PURPOSE	Type	Quantity
		Townships	1,242
		Villages	261
		Cities	272
		Counties	83
		School districts	556
		Int. school districts	57
		Community colleges	29
		Special authorities	unknown
		Total	2500 approx.

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Senate Testimony

States With the Largest Number of Local Governments

State	Number of Governments	Rank
Illinois	6,835	1
Pennsylvania	5,070	2
Texas	4,700	3
California	4,607	4
Kansas	3,950	5
Ohio	3,597	6
Minnesota	3,501	7
Missouri	3,416	8
New York	3,413	9
Indiana	3,198	10
Wisconsin	3,059	11

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Senate Testimony

Local Government Spending: Are We Spending Too Much?

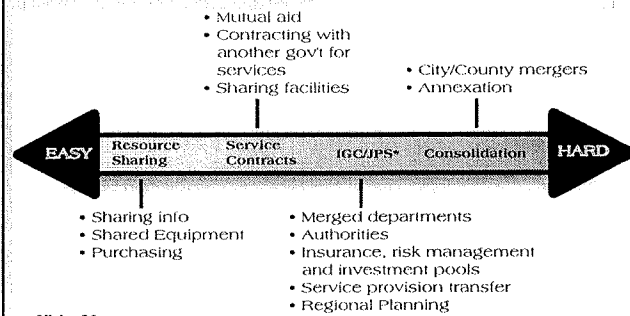
Illinois	\$1,251.00
Michigan	\$1,150.23
Pennsylvania	\$1,059.93
Indiana	\$1,286.79
Ohio	\$1,342.88
Wisconsin	\$1,127.64

Spending own source per capita

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Senate Testimony

Intergovernmental Cooperation



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*Intergovernmental Cooperation/Joind Public Service

Why Intergovernmental Cooperation?

- Economic Development
 - Local public services + Reasonable Tax Rates matter to economic competitiveness
- Intergov. Cooperation is a tool that:
 - Maintain Services while reducing costs and holding down local and state taxes

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Senate Testimony

Types of Consolidation

- Geographic Consolidation
 - Annexation and 425 agreements
- Functional Consolidation
 - Cooperating with neighboring jurisdictions to provide services; political units still exist
 - Generally done in two ways
 - Contracting
 - Creating a special authority
- Political Consolidation
 - Merger of two or more political units to form one
 - In Michigan, this is only accomplished if all jurisdictions vote affirmative

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Senate Testimony

Cooperation—Areas of Opportunity

- Police
 - Evidence does not point to major cost savings; labor intensive
- Fire/EMS
 - Evidence does point to cost savings
 - 15% possible estimated cost savings (\$100 mil.) from cooperation within 5-7 yrs.
- Economic Development
 - Very little scientific research produced to date

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Senate Testimony

Cooperation—Areas of Opportunity

- Planning and Zoning
 - No obvious major cost savings
- Transportation and Roads
 - In rural roads, but MI already has MI has already undertaken this process
- Property Assessment
 - Research underway; some may exist but not a major cost center
- Internal Services
 - No real research, but business process model may make the case for cost savings

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Senate Testimony

Political Consolidation/Merger

- Past 30 years of research does not point to success in achieving projected cost savings
- Feasibility studies are just that feasible, not actual results
- Limited success may be achievable:
 - Rural communities
 - Densely packed urban areas such as Detroit

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Senate Testimony

Other Governance Structures

- Unigov (Indianapolis)
 - Pre Unigov 23 cities, post Unigov 5 cities
 - 10 police dept., 8 fire dept., 20 special districts, 11 school districts (85 taxing districts total)
 - Consolidation of 18 cities and county government
 - Townships remained intact
 - Police and fire to pre-Unigov Indianapolis
- Did it save money, improve service?
 - Very little evidence that money was saved
 - Some claim that economic development was improved, although this is far from definitive

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Senate Testimony

Consolidation: Case in Point

- Newly Consolidated Iron River, MI
- Stambaugh, Iron River and Mineral Hills (July, 2000 merged)
- Were There Cost savings?
 - Yes, per capita expenditures fell from \$407 per capita to \$368 per capita
 - These results are not transferable to larger urban settings

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Senate Testimony

State Return on Investment

- **Local Government Cost Savings**
 - .5% cost savings over three years
 - Local Governments spend \$18 billion per year (2002 Census)
 - \$90 million in cost savings generated
- **State Perspective**
 - Governor proposed \$27 million in incentives
 - Return on Investment of 3 to 1 over three to five years

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Senate Testimony

Other State Programs for Incentives

- Maine
 - Fund for the Efficient Delivery of Local and Regional Services (\$2-\$4 million)
- New York
 - Shared Municipal services Incentive Program (\$25 million)
 - Shared Municipal services Technical Assistance project
- New Jersey
 - Sharing available Resources Efficiently" (SHARE) (\$4.2 million)

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Senate Testimony

Policy Principles

- **Local Government Flexibility**
 - Let local governments determine best strategy to achieve cost savings, mandates probably will be ineffective
- **Local matching** requirements are generally a key component of successful programs
- **Funding Formula**
 - Block grant approach, (i.e prove you are cooperating and receive more revenue sharing)
 - Competitive grant (communities must apply for limited funds with set criteria)
- **Definition of Cooperation**
 - Agreement in place, cost savings estimates, Benefits to taxpayers---tax rollbacks, no tax increases
 - What about after the fact evaluation of results

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Senate Testimony

Policy Proposals

- Financial Incentives
 - Matching grants to facilitate cooperation and overcome transition costs
- Legal Barriers & Regulatory Relief
 - Alter Intergovernmental Cooperation laws to allow full flexibility (in particular, staffing)
- Formation of Local Government Commission and Center for Intergovernmental Cooperation

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Senate Testimony

For more information:

- Contact the MSU Extension State and Local Government Program
 - www.msue.msu.edu/slg
 - Program office: 517-353-9460
 - Dr. Eric Scorsone (scorsone@msu.edu)

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